

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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## MEMORANDUM

TO: Somerville Retirement Board

FROM: John W. Parsons, Esq., Executive Director

RE: Approval of Funding Schedule

DATE: November 23, 2021

This Commission is hereby furnishing you with approval of the revised funding schedule the Board recently adopted (copy enclosed). The schedule assumes payments are made on July 1 and is effective in FY22 (since the amount under the prior schedule was maintained in FY22) and is acceptable under Chapter 32.

We outlined and reiterated a number of concerns regarding funding levels and the actuarial assumptions in our last six funding schedule memorandums (December 3, 2019, June 19, 2017, December 14, 2015, February 18, 2014, September 19, 2011 and August 12, 2009). We still have serious concerns regarding the actuarial assumptions as these assumptions are among the least conservative of any Chapter 32 system.

The Board maintained the investment return assumption of 7.75% as part of this actuarial valuation. There are 8 systems that are currently using an assumption of 7.75% and two systems use an assumption greater than 7.75%. We are recommending an assumption of 7.0% (or lower) for our 2021 actuarial valuations. For comparison, 34 systems are currently using an assumption of 7.0% or below. We expect this to increase to about 40 when all of the 2021 valuations are completed. There are 74 systems using an assumption of 7.25% or below.

Our reasonable range for our 2021 valuations is 6.0% to 7.45%. Note that your assumption is significantly greater than the high end of our reasonable range. This means that if we were the actuary for your plan, we would not allow that assumption and would request that you find another actuary if the Board insisted on using it. If we were to complete the work using that assumption, we would provide extensive detail as to what the plan liabilities would be using our recommended assumptions. We expect the plan's actuarial liability would increase about 10% (\$50 million) using our recommended assumptions.



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The 3.0% salary increase assumption is the lowest of any Chapter 32 system. PERAC's current standard assumption (ultimate rate after 10 years of service) ranges from 4.25% for Group 1 members to 4.75% for Group 4 members. Most systems have had gains during recent years based on the PERAC standard assumption as salary increases have been less than assumed, but the salary increase assumption is a long-term assumption. There is a loss of \$15.8 million on salary in this valuation. We expect that over the long term this assumption will need to be increased (and/or the investment return assumption decreased) which will increase plan liabilities.

We also note that although you use a current mortality base table, mortality improvement is projected only to 2025. PERAC's mortality assumption does not limit the length of mortality improvements to a specific year. Based on our experience, PERAC's methodology is common practice. Please note that there was a loss of about \$10 million on mortality in this valuation.

We are available to discuss these issues further. If you have any questions, please contact PERAC's Actuary, John Boorack, at (617) 666-4446, extension 935.

JWP/jfb

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## Appropriation Forecast

Fiscal Year	Employee	Employer	Amortization	Employer	Employer		
Ending	Payroll*	Contribution	Normal Cost with Interest	Payments with Interest	Total Cost with Interest	Total Cost % of Payroll	Funded Ratio %**
2022	\$88,312,485	\$8,026,913	\$2,502,059	\$14,125,760	\$16,627,819	18.8	69.7
2023	\$91,844,984	\$8,440,542	\$2,506,070	\$14,656,314	\$17,162,384	18.7	70.8
2024	\$94,600,334	\$8,789,087	\$2,482,298	\$15,614,837	\$18,097,135	19.1	72.2
2025	\$97,438,344	\$9,150,949	\$2,454,844	\$16,636,048	\$19,090,892	19.6	73.8
2026	\$100,361,494	\$9,526,612	\$2,423,509	\$17,724,045	\$20,147,554	20.1	75.6
2027	\$103,372,339	\$9,916,579	\$2,388,084	\$18,883,198	\$21,271,282	20.6	77.6
2028	\$106,473,509	\$10,321,370	\$2,348,353	\$20,118,159	\$22,466,512	21.1	79.9
2029	\$109,667,715	\$10,741,523	\$2,304,089	\$21,433,886	\$23,737,975	21.6	82.4
2030	\$112,957,746	\$11,177,597	\$2,255,055	\$22,835,663	\$25,090,718	22.2	85.2
2031	\$116,346,478	\$11,630,167	\$2,201,006	\$24,329,115	\$26,530,121	22.8	88.3
2032	\$119,836,873	\$12,099,832	\$2,141,684	\$25,920,239	\$28,061,923	23.4	91.8
2033	\$123,431,979	\$12,587,210	\$2,076,822	\$27,615,423	\$29,692,245	24.1	95.7
2034	\$127,134,938	\$13,092,940	\$2,006,141	\$0	\$2,006,141	1.6	100.0
2035	\$130,948,986	\$13,617,686	\$1,929,349	\$0	\$1,929,349	1.5	100.0
2036	\$134,877,456	\$14,162,133	\$1,846,145	\$0	\$1,846,145	1.4	100.0
2037	\$138,923,780	\$14,586,997	\$1,901,529	\$0	\$1,901,529	1.4	100.0
2038	\$143,091,493	\$15,024,607	\$1,958,575	\$0	\$1,958,575	1.4	100.0
2039	\$147,384,238	\$15,475,345	\$2,017,332	\$0	\$2,017,332	1.4	100.0
2040	\$151,805,765	\$15,939,605	\$2,077,852	\$0	\$2,077,852	1.4	100.0
2041	\$156,359,938	\$16,417,793	\$2,140,188	\$0	\$2,140,188	1.4	100.0
2042	\$161,050,736	\$16,910,327	\$2,204,394	\$0	\$2,204,394	1.4	100.0
2043	\$165,882,258	\$17,417,637	\$2,270,525	\$0	\$2,270,525	1.4	100.0
2044	\$170,858,726	\$17,940,166	\$2,338,641	\$0	\$2,338,641	1.4	100.0
2045	\$175,984,488	\$18,478,371	\$2,408,800	\$0	\$2,408,800	1.4	100.0
2046	\$181,264,022	\$19,032,722	\$2,481,064	\$0	\$2,481,064	1.4	100.0
2047	\$186,701,943	\$19,603,704	\$2,555,496	\$0	\$2,555,496	1.4	100.0
2048	\$192,303,001	\$20,191,815	\$2,632,161	\$0	\$2,632,161	1.4	100.0
2049	\$198,072,091	\$20,797,570	\$2,711,126	\$0	\$2,711,126	1.4	100.0
2050	\$204,014,254	\$21,421,497	\$2,792,460	\$0	\$2,792,460	1.4	100.0
2051	\$210,134,682	\$22,064,142	\$2,876,234	\$0	\$2,876,234	1.4	100.0
2052	\$216,438,722	\$22,726,066	\$2,962,521	\$0	\$2,962,521	1.4	100.0
2053	\$222,931,884	\$23,407,848	\$3,051,396	\$0	\$3,051,396	1.4	100.0

\* Calendar basis

\*\* Beginning of Fiscal Year